

## Transportation Funding Issues: Legislative Perspective

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### General Fund Budget Problem

- GF operating gap between on-going revenues and expenditures of \$1 billion for FY '04
- GF revenue in FY '04 below FY '93
- GF revenue decrease 21% - FY '00 to FY '04
- GF spending only decrease 5.6% - FY '00 to FY '04
- Structural problem not one-time problem
- Require long-term not short-term fix

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### GF Budget Problem: Solutions to Date

- Series of GF budget cuts dating back to FY '01 (EO 2001-9)
- Fee increases
- Tax policy changes (a.k.a. tax "loopholes")
- Federal emergency revenue
- Not out of woods yet, more cuts in FY '04
- What does this mean for transportation?

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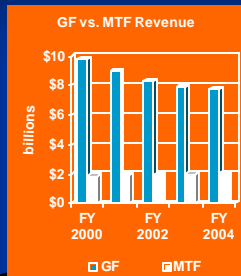
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## Good News/Bad News

- 13% growth in MTF - FY '00 to FY '04
- Transportation funding does not receive direct, on-going support from the General Fund
- Transportation funding is insulated from the GF budget and problems, for most part
- "Restricted" nature of transportation funding



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## Good News/Bad News

- Transportation funding (\$2.2 billion) will have to help GF budget
- Long-term rather than one-time help
- Help on revenue side, rather than spending side
- GF Budget problem continues in FY '05
- How long and how much will transportation have to help with GF budget problem?

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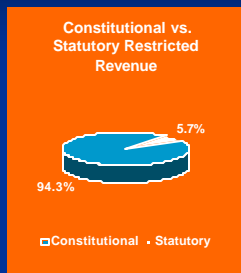
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## Restricted Revenue

- Article IX, Section 9
- Constitutional represents about 94% (\$2.1 billion) of all revenue
- Difficult, if not impossible, to divert constitutional revenue



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## Restricted Revenue

- Statutory restricted revenue represents about 6% (\$133 million) of all transportation revenue
- Not as difficult to divert statutory revenue
- Funding that would go to GF is main target
- Largest portion is auto-related sales tax revenue to CTF (\$67 million)
- Driver license fee revenue to TEDF (\$13 million)

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## Recent Revenue Diversions

- On-going and temporary diversions
  - EO 2001-9 (\$63 million)
  - BSF transfer for Build Michigan III (\$35 million)
  - Driver license revenue to TEDF (\$13 million - not enacted)
  - Sales tax to CTF - 2 years (\$10.8 million)
  - Midfield terminal payments from CTF, originally GF (\$9.6 million and \$12 million)
  - Loss of GF from Aero Program and replace with airport parking tax (\$6 million)
  - CTF diversion to STF for 17 capacity projects (\$10 million)
- All aspects of transportation funding affected by diversions

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8

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## Prospects for Increased Funding

- Gas tax increase of 1997 – “Perfect Storm”
  - Robust economy, no budget problems
  - “Pavement crisis” in Michigan
  - General consensus that problem exists
  - Roads a priority for public
  - Competing proposals, very contentious
  - Solution: focus on roads (split 4 cents for roads only)
  - Trade-off for tax increase, i.e. personal exemption increase
  - GF and School Aid Fund negatively impacted

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## **“Crisis” Does Not Exist**

- Demonstrated need for increased funding?
- Yes – within transportation community
- No – in public's view
- Maybe – within legislature
- Current legislative priorities: fix Michigan's weak economy and address GF budget problem

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## **Current Legislative Climate**

- General opposition to raising taxes
- Address GF budget before transportation
- Wait and see attitude with TEA-21 reauthorization
- Other options to address transportation funding issues
  - Open to continued use of borrowing, but what is the appropriate mix of “pay-as-you-go” and borrowing?
  - Rearrange allocation of transportation resources to address priorities

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11

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